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Zayre

ANNUAL REPORT 1974





These days, I don't mind bragging about how little I pay for my clothes.



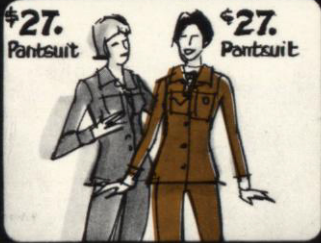
I got this great all-polyester pantsuit at a department store for



just \$27.



Not bad.



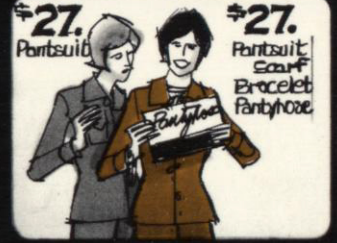
But I took my \$27 to Zayre and I got the same pantsuit.



Plus this scarf...



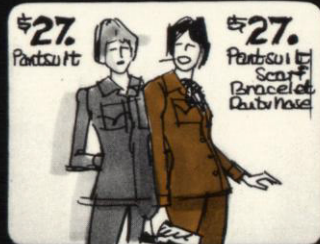
and this bracelet...and a



pair of panty hose.



It is a smart outfit, isn't it?



Umm.



But yours is smarter.

**Compare...
You can't do better than Zayre.**

V.O.: Compare. You can't do better than Zayre.

TV-A SUCCESSFUL CAMPAIGN

This is the original storyboard and the script for one of a series of extremely successful television commercials which Zayre aired in 1974. The commercials demonstrate, item by item, how much further your money goes when you buy at Zayre, thus documenting our well-known slogan: Compare . . . You can't do better than Zayre

FINANCIAL HIGHLIGHTS

Fiscal Year Ended

Last Saturday in January

(Dollars in Thousands Except per Share Amounts)

	1975	1974
Net Sales	\$1,052,841	\$1,003,422
Pre-tax Income	1,238	16,739
Net Income	832	9,112
Working Capital	123,698	126,781
Shareholders' Equity	109,524	108,706
Net Income		
per Common Share:		
Primary	\$.14	\$1.84
Fully Diluted	\$.14	\$1.77

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ANNUAL MEETING

The 1975 annual meeting will be held at 11:00 A.M.
on Tuesday, June 3, 1975, in the Forum Room,
State Street Bank and Trust Company,
225 Franklin Street, Boston, Massachusetts.

FORM 10-K

Information concerning the Company's operations and financial position is provided in this report and in the Form 10-K Report filed with the Securities and Exchange Commission. A copy of the 10-K Report may be obtained without charge by writing to Zayre Corp., Shareholder Relations, Framingham, Massachusetts 01701.

TO OUR SHAREHOLDERS

1974 was the most difficult year in our history. The nation's economy suffered its worst recession since the Thirties, and inflation and unemployment drastically diminished consumer discretionary spending. It was a year that began with inventory scarcities and ended with severe inventory liquidations that caused a most unusual and adverse fourth quarter.

All of the achievements of the year were obscured by our poor operating results. Although sales rose 4.93% to \$1,052,841,000, net income was only \$832,000, or \$.14 per share, as compared with \$9,112,000, or \$1.84 per share in the prior year.

Our entire organization is committed to achieving substantial profit improvement in 1975. To that end, we have reappraised many existing programs and initiated several new ones. Much of this letter will be devoted to describing them. First, however, it will be useful to analyze 1974's performance.

Our sales and merchandising programs proved sound enough to prevent any significant decline in the volume of our existing stores. But we did not achieve the sales growth necessary to offset the rising costs of doing business, especially utility and interest costs. The organization did succeed in keeping controllable expenses, such as payroll and supplies, well within budget.

Most of 1974's shortfall resulted from reduced gross profit margins. Gross profit is the sum of merchandise markups, minus freight costs, retail price reductions, and inventory shrinkage.

In 1974, our merchandise markups were somewhat better than in the prior year because of improvements in our mix of sales. But these gains were more than offset by an unprecedented amount of retail price reductions at the end of the year.

Although we had anticipated that business during 1974 would be quite promotional, the price reductions attendant on various sales events proved to be even more than our plan. Burdened with heavy inventories, many retailers chose to lower their prices for the all-important Christmas season. We met that competition head-on.

Further, markdowns rose significantly at year-end. With shortages gone and wholesale prices weakening, we saw that lower year-end inventories would be needed to protect future operations. By restricting buying, and with a vigorous clearance of all seasonal and special-purchase merchandise, overall inventories — which had been up 12% at the end of the third quarter — were reduced to \$177,647,000, some fourteen million dollars below the prior year.

The ratio of sales to year-end inventory rose to 5.93 from 5.24 last year. Beginning the new year with lower stocks will serve us well in 1975 because it should mean fewer markdowns.

A third factor affecting our gross margin was an

increase in inventory shrinkage, in contrast to the reductions we had achieved in the previous four years. Shrinkage is the combination of theft and unrecorded price reductions. The latter factor tends to increase in an atmosphere of frequent and heavy promotional pricing and markdowns, such as existed at year end; and, to that extent, it should prove to be nonrecurring.

Your Company's sound financial condition is an important ingredient in its ability to improve earnings. Shareholders' equity totals \$109,524,000, or \$22.51 per common share. Working capital, the base of the Company's strength, aggregates \$123,698,000. The ratio of debt to equity has shown improvement in each of the past four years.

Of great significance is the Company's new, unsecured, line of credit agreement for \$89,500,000. This commitment, described more fully on page 7, provides us with adequate bank lines to support seasonal merchandise requirements, and places those lines on a firm, contractual basis through January, 1977. We are pleased, indeed, with the continued, solid support of our banking group, which in turn, enhances the fine relationships we have always enjoyed with our vendors.

1975 will not be an easy year. But, although the statistics make grim reading as they issue from Washington each month, the consensus of the economists appears to be that the worst is largely behind us and that the recession will soon "bottom out." If there is a difference of opinion among them, it seems to center on whether the recovery will begin in the second half of 1975 or early in 1976.

An upturn in consumer spending and a growth in housing starts are expected to lead the economic recovery. Consequently, we anticipate an improved retail environment in the fall. Even if the upturn is delayed until 1976, we believe our programs will still be forceful enough to achieve a significant earnings gain over 1974. On a quarterly basis, our earnings comparisons during the first part of 1975 are expected to be somewhat adverse, becoming more favorable as the year progresses, with the greatest improvement in the fourth quarter.

The programs we are emphasizing to improve performance cover four areas of our business: capital spending, sales development, expense control and gross margin management.

Capital Spending: Over the past two years, we have developed a policy of seeking to contain capital spending to amounts generated within our business. This has meant a gradual reduction in the number of new Zayre stores. Seven were opened in 1974, and few, if any, will be added during 1975. This policy has a favorable effect on our balance sheet, and reduces our financial requirements.

Currently, our capital spending is primarily devoted to maintaining and refurbishing existing facilities and stores. Over the next two years, it is

projected to run well below our annual rate of depreciation and amortization which is now \$12,653,000.

Sales Development: Our sales development programs helped us maintain store volume in the difficult months of 1974; and they will help increase volume as business conditions improve.

A more intense evaluation of merchandise allocation within the stores is now taking place. We are giving more space to high-profit categories and those for which there is growing demand; for example, automotive products, outdoor seasonal merchandise, dinnerware, and cosmetics.

Our apparel departments are getting improved locations, and key items and special purchases are receiving more exposure in main traffic aisles.

And we are increasing sales of average and above-average markup merchandise by featuring selected special purchase and impulse items in our main traffic aisles and at our check-out counters. We expect these programs, which we call Bargain Aisle and Register Tip, to generate a significant increase in gross profit dollars.

Our V.I.P. program involves a major upgrading of store standards, personnel coverage, and advertising, and a corresponding increase in store volume. Still experimental, the program exists in 38 stores, and elements of V.I.P. are being adapted to other units.

We have embarked this year on Zayre '75, an exciting program to improve store appearance and merchandise presentations, without involving heavy capital outlays. The techniques we're using include more dramatic signs, contemporary wall treatments, wider aisles, greater use of vertical space for merchandise display, and improved departmental layouts.

Expense Control: We have made major reductions in many areas such as real estate, personnel, and training — all closely related to expansion and the indoctrination of new personnel.

By restructuring the supervisory staffs in smaller stores, we expect to achieve substantial savings and make more man-hours available for stock keeping.

And those man-hours will be even more productive than they were last year. We are applying to the receiving, marking and storage of merchandise in our stores certain industrial engineering techniques we have used elsewhere.

In another expense-control measure, the review of purchase orders for proper transportation routing has helped us contain rising freight rates. We have had notable success in holding down the cost of small drop shipments by consolidating more of them through distribution centers.

Total utility costs increased \$3 million this past year. We minimized the increase through company-wide energy conservation programs, reduced lighting levels, and temperatures set lower

in winter and higher in summer. Since electricity costs are a function of peak demand as well as of kilowatt consumption, we are taking measures to smooth out the demand load to achieve still greater savings.

The recent sharp decline in short-term money rates should further reduce 1975's expenses, by reversing the pattern of the past two years, in which interest costs rose approximately \$3 million in 1973 and \$4 million in 1974.

A major achievement of our expense-control programs is that, on a same-store basis, and despite inflation, our dollar costs are budgeted no higher than in 1974.

Gross Margin Management: Managing the several elements which comprise gross margin is one of the most complex and important tasks in achieving profitability. Our plans include the following:

We expect business to continue to be highly promotional; our advertising and major sales events will be as extensive and as forceful as they were last year. However, promotional retail price changes were exceptionally high in 1974, and therefore, we do not anticipate any more than a modest further increase in this item.

Among all retailers — conventional operations and discounters alike — initial markups on merchandise have trended upwards in recent years. We expect to achieve further modest gains in initial markups, especially as a result of our Register Tip and Bargain Aisle programs, and through the changes we have made in departmental layouts.

As for markdowns, we expect them to return to pre-1974 levels. With lean opening inventories and the improved availability of merchandise, we expect to maintain reasonably low inventory levels throughout the year.

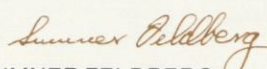
We expect a similar recovery in shrinkage. We have strong programs in place for control of this problem. Those efforts are being intensified, and this year's fourth quarter should be normal.

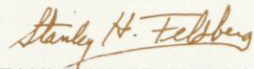
The combination of these factors is such that we expect a major improvement in gross margins this year over 1974, exceeding those of 1973.

The Company has good stores and fine people. Their efforts last year were overshadowed by one of the steepest recessions in the nation's history as well as by a severe inventory shakeout.

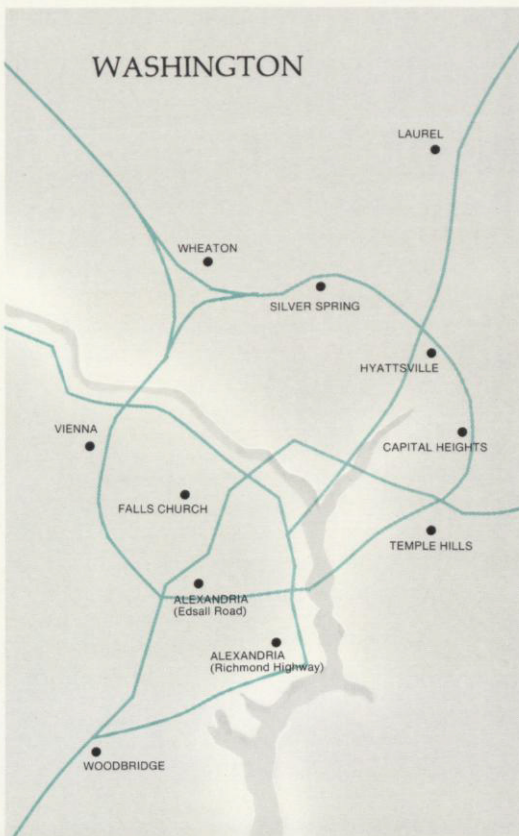
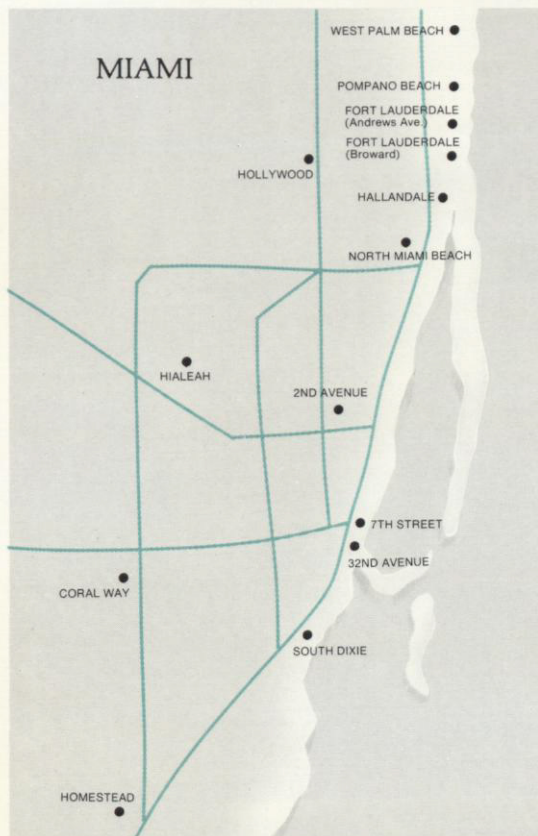
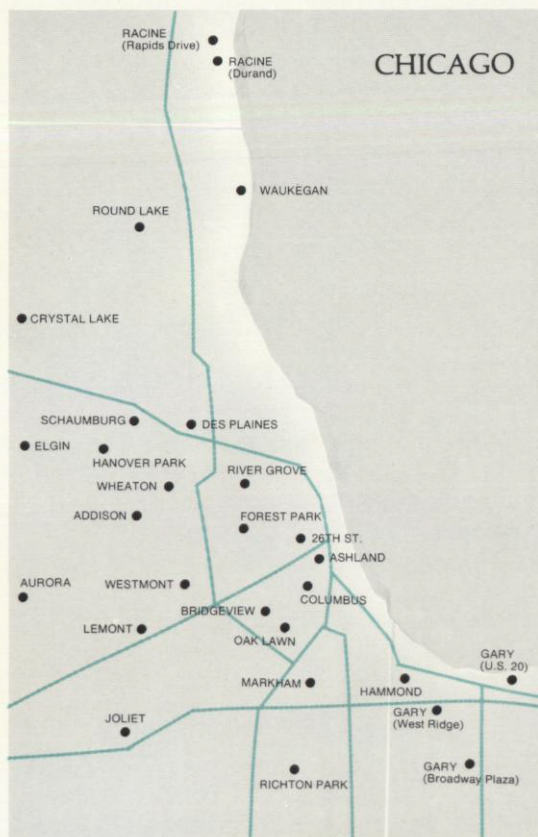
Our entire organization is committed to a recovery in earnings, and the programs that we have put into action should achieve that end. Building on our basic strengths, we believe the Company is prepared for renewed and profitable growth.

Respectfully submitted,


SUMNER FELDBERG
Chairman


STANLEY H. FELDBERG
President

The maps below show how Zayre stores are clustered in and around four of our major marketing areas. Clustering enables us to lower distribution costs and increase the impact of each dollar committed to advertising.

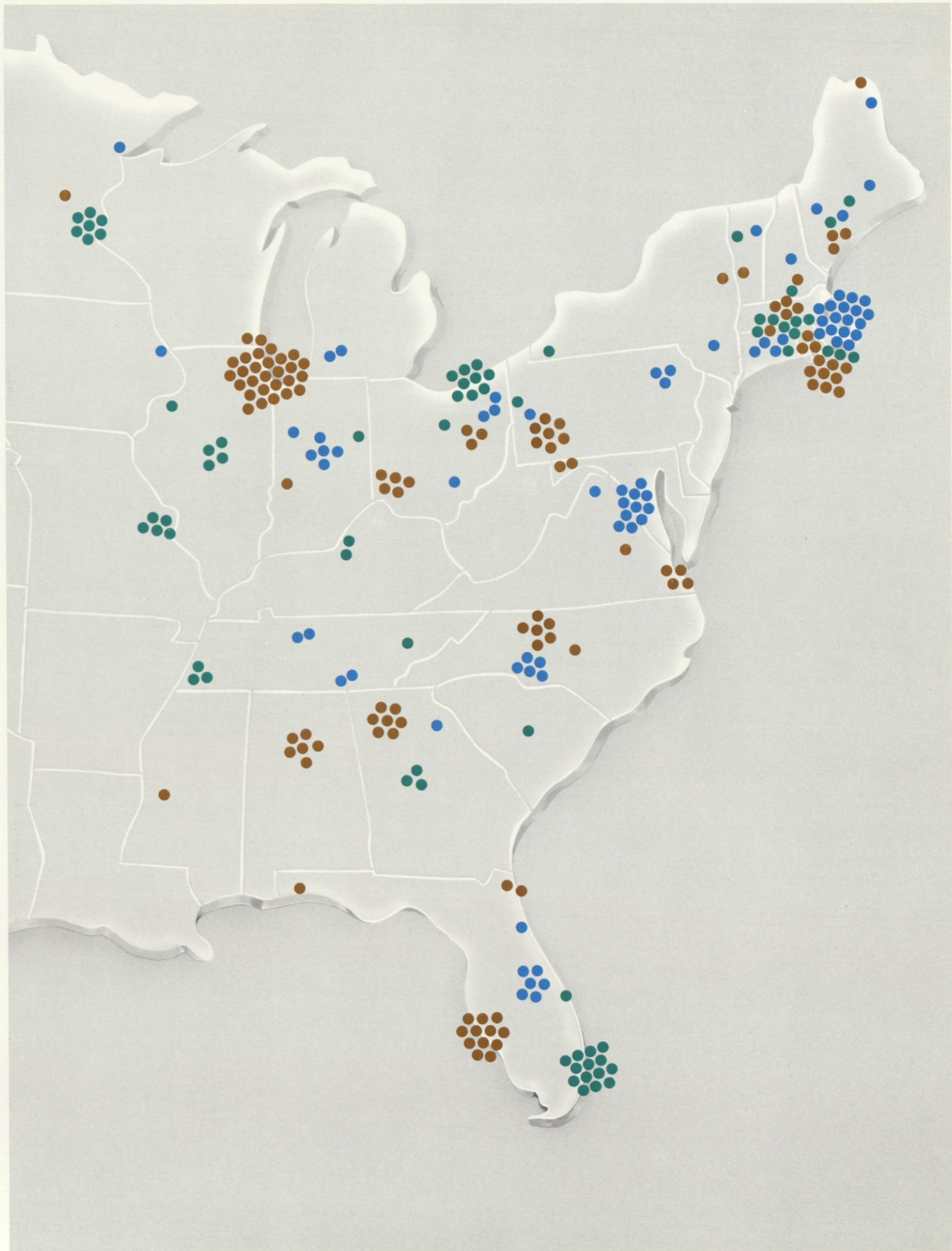


ZAYRE "CLUSTERS"

	DISCOUNT DEPARTMENT STORE OPERATIONS
Chicago, Illinois	28
Boston, Massachusetts	18
Miami, Florida	14
Providence, Rhode Island	12
Tampa-St. Petersburg, Florida	12
Washington, D.C.	11
Cleveland, Ohio	9
Atlanta, Georgia	7
Western Massachusetts	7
Minneapolis-St. Paul, Minnesota	7
Pittsburgh, Pennsylvania	7
Orlando, Florida	6
Birmingham, Alabama	6
Greensboro-High Point, N. C.	6
Indianapolis, Indiana	5
Cincinnati, Ohio	5
Charlotte-Kannapolis, N. C.	5
St. Louis, Missouri	5
Hartford, Connecticut	4
Norfolk-Portsmouth, Virginia	4
Worcester, Massachusetts	4
Central Illinois	4
Youngstown, Ohio	3
Scranton-Wilkes-Barre, Penn.	3
Memphis, Tennessee	3
Akron-Canton, Ohio	3
Southeastern Massachusetts	3
Portland, Maine	3
Macon, Georgia	3
Nashville, Tennessee	2
Louisville, Kentucky	2
Jacksonville, Florida	2
Western Maryland	2
Chattanooga, Tennessee	2
Kalamazoo, Mich.	2

ZAYRE BY STATE

	NUMBER OF STORES
Alabama	6
Connecticut	6
Florida	37
Georgia	11
Illinois	27
Indiana	12
Iowa	1
Kentucky	3
Maine	10
Maryland	8
Massachusetts	34
Michigan	2
Minnesota	9
Mississippi	1
Missouri	5
New Hampshire	3
New York	3
North Carolina	12
Ohio	21
Pennsylvania	12
Rhode Island	10
South Carolina	1
Tennessee	8
Vermont	3
Virginia	11
Wisconsin	2



FINANCIAL AND OPERATING REVIEW

Company Profile — The major business of Zayre Corp. is the operation of a chain of self-service, convenience, general merchandise, discount department stores. While the typical Zayre store has 73,000 square feet, they range in size from 45,000 to 130,000 square feet. Virtually all are on one floor, with approximately 77% of the space devoted to selling area.

There are close to 100 different merchandise departments in each store ranging from apparel to non-apparel convenience items, and on to durable goods — serving most of the clothing, home, and recreational needs of the family. Sales of leased departments account for approximately 3% of total store volume.

Most Zayre stores are in suburban strip shopping centers, which have easy accessibility, generous shopping hours and ample free parking. Zayre is usually the major tenant in these centers, which generally include at least a food supermarket and a drugstore. Some Zayre stores are free-standing; others are part of large, regional shopping malls.

Our 258 discount stores aggregate 19,273,000 square feet of gross area. Two hundred and nineteen are clustered in 35 major metropolitan markets in the eastern half of the nation. The remainder are in 39 smaller communities. (See map on page 5.) The population of these markets is some fifty million, or about 25% of the nation.

The Company maintains a network of six distribution centers with 2,100,000 square feet of space. About 62% of our merchandise is processed through these centers; the balance flows directly from vendors to stores.

The first two Zayre stores opened in 1956 in Hyannis and Roslindale, Massachusetts. However, the origins of the firm trace back to 1919 and a hosiery jobbing business that subsequently developed into a chain of ladies' apparel specialty stores. Originally centered in New England, Zayre today derives approximately 33% of its revenues from the Northeast, 41% from the Midwest, and 26% from the Southeast.

Zayre also operates several specialty store chains which in the aggregate represent less than 10% of the Company's total sales.

The Leasing Subsidiaries — Zayre Leasing Corporation, a wholly-owned subsidiary, continues to finance and service the Company's fixture requirements. During 1974, a total of \$7,100,000 in this type of term financing was placed, and a total of \$5,853,000 was retired through the normal operation of the leasing program.

The equipment promissory notes carry interest rates that fluctuate with the prime rate and are amortized over approximately the same term as the underlying assets are depreciated.

The wholly-owned Zayre realty subsidiaries own three of our distribution centers and 18 shopping centers, with Zayre stores as the principal tenant of all but one. Zayre Corp. maintains a 50% interest in a real estate development company which owns 19 shopping centers with Zayre stores as the principal tenant.

Credit Operations — Zayre stores provide customers with a variety of credit programs. All offer time sales plans — financed by others — in connection with the purchase of appliances and other big-ticket items. All stores also offer revolving credit, either through bank credit card programs or through a Zayre custom card, financed by an outside firm in some markets and by the Company in others.

Zayre Credit Corporation, a wholly-owned, unconsolidated subsidiary, was organized in 1971, enabling the Company to finance owned customer receivables on an economical basis and to defer payment of some of the related income taxes due to the tax treatment accorded instalment receivables. The agreement between the Company and the credit corporation provides that the income before interest costs of the credit corporation shall be at least 150% of that expense.

Zayre owned revolving credit (generally repaid over a 20-month period) is still a small part of the Company's total operations, available at present in 54 stores. The Company has found that operation of its own credit plan does more to enhance store volume than the use of other revolving plans. However, credit is costly, especially in periods of high interest rates, and receivables tie up a significant amount of funds. Accordingly, for the present, our owned credit operation is being contained within the stores it now serves. At year-end, customer receivables aggregated \$23,989,000 up from \$19,493,000 in the prior year.

Gasoline Stations — There are now 95 Zayre stations in operation, all but four of which are located on the parking lots of our discount department stores.

In 1972, we organized Remex, a joint venture equally owned by the Company and Research Fuels, Incorporated, of Houston, Texas, a firm with strong marketing and supply capabilities in this field. Effective January 1, 1973, Remex assumed the operation of all stations except those (now seven in number) that are part of our Shoppers' City division in the Minneapolis-St. Paul area.

Our share of pre-tax income from the joint venture amounted to \$1,150,000 this year, and \$800,000 in 1973.

Specialty Stores — Hit or Miss, our promotional ladies' apparel chain, continues to develop rapidly. Simple, functional stores, rapid merchandise

turnover, and high sales per square foot keep capital investment low and return on investment high.

The stores focus on exciting fashions in sportswear and ready-to-wear for junior and missy customers. Most merchandise represents special purchases from well-known makers. The labels are removed, and the prices are well below normal retails. The chain follows an aggressive markdown program to assure high turnover, and fresh, constantly changing assortments.

Because of its pricing policy, Hit or Miss tends to avoid locations in expensive regional malls. Its stores are generally in strip or community shopping centers; they average approximately 4,000 square feet.

Originally started in the Boston area, this chain has now spread through New England and New Jersey. Sixteen units were added in 1974, including stores in Philadelphia, bringing to 62 the number in operation at year end. Between 20 and 25 more will be opened in 1975, including initial penetration of the Washington, D. C. market.

Our traditional ladies specialty chain, Bell/Nugent, has opened its new prototype, On Stage, in three major, enclosed-mall shopping centers. These are dramatic stores, featuring medium-to-higher price sportswear and ready-to-wear from famous makers. At the same time, the balance of this chain has been steadily upgraded to much the same merchandise content. A number of shops that did not lend themselves to upgrading have been closed or subleased. Thirty-six units were in operation at year end, down from 49 in 1973.

Because of our policy of restraint relative to capital spending, no additional fabric specialty shops are planned for 1975. Forty-six Beaconway units are in operation at present, and they are a major factor in fabric retailing throughout New England.

The Company also operates six Spree! stores, which are toy and leisure-time specialty shops.

Financial Commentary — Your Company has carefully and consistently provided in advance for its long-term financial requirements through the growth of net worth and the periodic additions of long-term debt. Current instalments of long-term debt are \$13,722,000, including Zayre Leasing, and only \$2,208,000 of the total pertains to general corporate debt. For further information about the maturities of long-term debt, refer to page 18, Note A.

Our wholly-owned leasing and realty subsidiaries have been designed in such a way as to preserve the parent company's general corporate debt capacity. Consistently following a policy of financing capital additions

through these subsidiaries has permitted the Company to utilize the bulk of its working capital in its principal business, namely merchandising.

Traditionally, the Company has used short-term bank lines to accommodate seasonal merchandise peaks. These lines, which the Company consistently clears at year-end, were established in June of 1974 at \$83 million, up from \$71 million the year before.

Developments in the money market during the past year indicated to us that contractual commitments on a longer-term basis would be beneficial to the Company, to its banks, and to its thousands of vendors. Accordingly, working with our sixteen existing line banks, a new, unsecured, committed line of credit agreement in the amount of \$89.5 million has been consummated, and became effective March 7, 1975. The amount is one that we deem more than adequate for our needs over the next two years.

The agreement runs until January 28, 1977, and may be renewed annually thereafter. It provides that up to \$22 million of the total is available to the Company's wholly-owned credit corporation and that borrowings (other than for the credit corporation) be retired at year-end in keeping with the Company's consistent past practices.

The agreement embraces financial covenants such as debt-to-worth, tangible net worth, working capital and current ratio. The covenants are generally consistent with the restrictions the Company has imposed upon itself during this period of time; namely, concentrating on our present line of business, conserving cash flow, and controlling capital expenditures. In addition, the agreement includes a prohibition during its term against common stock cash dividends and limitations on the incurrence of additional lease obligations and on the sale or disposition of significant corporate assets.

In establishing this agreement, careful consideration has been given not only to the needs of the Company and its banks, but also to those of its vendors. The Company has always enjoyed outstanding relationships with the trade and this agreement should further reinforce that support.

Taxes — In 1974, state and federal income taxes amounted to \$406,000 and represented 32.8% of pre-tax income, compared with 45.6% in the prior year.

Most of the Company's 1974 capital investment program qualified for the 7% investment tax credit. By virtue of the Company's reduced expenditures, this amounted to \$522,000, or 11¢ per share, down from \$1,250,000, or 26¢ per share in 1973. The investment tax credit has been consistently

reported as a reduction of the current provision for federal income taxes.

In addition to state and federal income taxes, and entirely aside from sales taxes, our expenses include in excess of \$18 million dollars in personal property, payroll, and miscellaneous taxes, up from \$17 million during 1973.

Quarterly Results — Comparative quarterly sales and earnings were:

1974

Quarter	Sales	Earnings	Per Share
First	\$ 224,075,000	\$ 554,000	\$.11
Second	259,215,000	1,551,000	.31
Third	242,749,000	1,011,000	.20
Fourth	326,802,000	(2,284,000)	(.48)
	\$1,052,841,000	\$ 832,000	\$.14

1973

Quarter	Sales	Earnings	Per Share
First	\$ 216,616,000	\$1,238,000	\$.25
Second	241,971,000	2,489,000	.50
Third	225,190,000	976,000	.19
Fourth	319,645,000	4,409,000	.90
	\$1,003,422,000	\$9,112,000	\$1.84

Management Discussion of the Summary of Operations — These comments relate to the Summary of Operations on page 13, and should be read together with the Letter to Shareholders and the Financial and Operating Review.

During the second half of fiscal 1974, an escalating rate of inflation, the energy crisis, and fears of an economic recession, began to adversely influence consumer discretionary spending. The resultant slowing of sales and higher interest rates, were the primary reasons for the reduction in net income in fiscal 1974. In addition, in adjusting inventories to the change in demand, the Company experienced some out-of-stock positions during the third quarter.

Fiscal 1975 was marked by increasing inflation, rising unemployment, and declining consumer confidence. The resulting poor economic environment did not permit growth in sales sufficiently large to offset the inflationary increase in company expenses. Gross profit margins were adversely affected by an unprecedented amount of retail price reductions. Promotional pricing was particularly intense during the Christmas season. Higher than normal markdowns resulted from efforts to reduce inventory levels during the fourth quarter. In addition, an increase in inventory shrinkage was experienced.

Selling, general and administrative expenses have increased, primarily as a result of additional

stores, as well as inflation. These expenses grew at a slower rate in fiscal 1975 than in fiscal 1974 because of fewer store openings.

Primarily as a result of new stores, rent rose \$3,642,000 in fiscal 1974, and \$2,940,000 in fiscal 1975.

Taxes, other than state and federal income taxes, increased by \$2,479,000 in fiscal 1974, and by \$1,552,000 in fiscal 1975. Income taxes decreased due to lower earnings and are commented on in Note G to the Financial Statements.

Interest costs, principally due to the increase in short-term rates, rose by \$2,708,000 in fiscal 1974 and \$4,006,000 in fiscal 1975.

Price Range of Common Stock — The common stock of the Company is listed on the New York Stock Exchange (Symbol: ZY). Quarterly high and low closing prices were:

	1974		1973	
	High	Low	High	Low
1st Quarter	\$7.375	\$5.375	\$24.75	\$9.875
2nd Quarter	6.00	3.75	13.25	9.00
3rd Quarter	4.375	2.875	14.25	9.375
4th Quarter	4.75	2.50	9.875	4.50

New Officers — Since the issuance of our last annual report, the following promotions and elections were made by the Board of Directors:

To Senior Vice President

Arthur F. Loewy—*Finance, and Treasurer*

To Vice President

Joseph Halper—*Regional Manager*

Rudy Hunter—*Regional Manager*

Samuel Lynch—*Management Information Systems*

Stanley Schlesinger—*Regional Manager*

Robert Shedd—*Finance/Assistant Treasurer*

Lee A. Silver—*Personnel*

William Smith—*Merchandising*

To Assistant Vice President

Stephen Herman—*Corporate Planning*

Donald Norman—*Management Information Systems*

Irving Ritz—*Personnel*

Calvin Saltzman—*Merchandising*



AN IMPROVED ZAYRE LOOK

This year, we embarked on a major, long-range campaign to make our stores more attractive and convenient for shopping. The photographs on the following pages illustrate some of the approaches we're using.



IMPROVED STORE LAYOUTS

Our improved store layouts feature wider aisles to reduce crowding, more logically organized departments so that customers can find merchandise easily, and open displays, so that shoppers can find what they want and make their selections quickly.





IMPROVED PRESENTATIONS

Zayre '75 is a new program which focuses on the many ways in which the merchandise on our store fixtures can be displayed with more sales appeal. Among the techniques we are using:

Category dominance, that is, the mass display of items in high demand, in all colors and sizes.

Fashion emphasis, not always found in discount stores, but invaluable in building customer loyalty.

Vertical displays — vast walls of merchandise which have tremendous visual impact, and from which customers can more readily make their choices.

Stronger and more consistent graphics, to tell our sales stories more vividly with bold, big, overhead signs and uncluttered smaller signs on racks, tables and counters.





A TOTAL FAMILY EXPERIENCE

Zayreshopping is what we call the phenomenon we see so frequently: entire families shopping together in one of our stores. What makes it possible is that we have gathered together in one convenient location a broad diversity of merchandise assortments, ranging from fashion apparel to quality hardware, and from records and tapes to fabrics and yarn. Zayreshopping is a phenomenon we plan to encourage in 1975.



FIVE-YEAR SUMMARY

Fiscal Year Ended

Last Saturday in January

(Dollars in thousands except per share amounts)

	1975	1974	1973	1972	1971
Summary of Operations:					
Net sales, excluding sales of leased departments	\$1,052,841	\$1,003,422	\$ 939,710	\$ 801,101	\$ 686,337
Cost of sales, including buying and occupancy costs	832,269	782,605	739,027	625,115	535,872
Selling, general and administrative expenses	190,603	178,866	159,906	137,051	116,597
Depreciation and amortization	12,653	13,089	12,438	10,943	9,570
Interest cost	16,307	12,301	9,593	8,640	8,203
Less interest capitalized	(229)	(178)	(173)	(167)	(118)
Income before income taxes	1,238	16,739	18,919	19,519	16,213
Provision for income taxes	406	7,627	8,369	9,502	8,550
Net income	\$ 832	\$ 9,112	\$ 10,550	\$ 10,017	\$ 7,663
Average number of common shares outstanding	4,870,425	4,881,658	4,846,017	4,779,611	4,637,579
Net income per common share:					
Primary	\$.14	\$1.84	\$2.15	\$2.06	\$1.62
Fully diluted	\$.14	\$1.77	\$2.05	\$1.95	\$1.54
Stores in Operation:					
Self-Service Department Stores	258	251	232	204	179
Apparel Specialty Shops	36	49	54	57	51
Fabric Shops	46	42	42	29	18
Gasoline Stations	95	94	85	68	50
Discount Food Supermarkets	10	9	9	9	8
Toy and Leisure-Time Stores	6	6	6	11	9
Promotional Ladies' Apparel Stores	62	46	33	23	17
Other Financial Data:					
Current assets	\$ 228,332	\$ 237,643	\$ 217,328	\$ 198,266	\$ 154,689
Current liabilities	\$ 104,634	\$ 110,862	\$ 100,944	\$ 98,178	\$ 67,395
Working capital	\$ 123,698	\$ 126,781	\$ 116,384	\$ 100,088	\$ 87,294
Current ratio	2.18	2.14	2.15	2.02	2.30
Shareholders' equity	\$ 109,524	\$ 108,706	\$ 99,539	\$ 88,234	\$ 73,538
Number of common shares outstanding at year-end	4,864,767	4,874,817	4,853,717	4,821,273	4,650,393
Equity per common share	\$22.51	\$22.30	\$20.51	\$17.98	\$15.52

CONSOLIDATED STATEMENTS OF INCOME & RETAINED EARNINGS

Zayre Corp. and Consolidated Subsidiaries

	Fiscal Year Ended	
	January 25, 1975	January 26, 1974
	(In Thousands)	
Net sales, excluding sales of leased departments	<u>\$1,052,841</u>	<u>\$1,003,422</u>
Cost of sales, including buying and occupancy costs	<u>832,269</u>	<u>782,605</u>
Selling, general and administrative expenses (Note F)	<u>190,603</u>	<u>178,866</u>
Depreciation and amortization	<u>12,653</u>	<u>13,089</u>
Interest cost	<u>16,307</u>	<u>12,301</u>
Less interest capitalized	<u>(229)</u>	<u>(178)</u>
Total expenses	<u>1,051,603</u>	<u>986,683</u>
Income before income taxes	<u>1,238</u>	<u>16,739</u>
Provision for federal and state income taxes (Note G)	<u>406</u>	<u>7,627</u>
Net income	<u>832</u>	<u>9,112</u>
Retained earnings at beginning of year	<u>87,836</u>	<u>78,874</u>
Dividends on Series B preferred stock	<u>(150)</u>	<u>(150)</u>
Retained earnings at end of year	<u>\$ 88,518</u>	<u>\$ 87,836</u>
Net income per common share		
Primary	<u>\$.14</u>	<u>\$1.84</u>
Fully diluted	<u>\$.14</u>	<u>\$1.77</u>

CONSOLIDATED STATEMENTS OF ADDITIONAL PAID-IN CAPITAL

	Fiscal Year Ended	
	January 25, 1975	January 26, 1974
	(In Thousands)	
Balance at beginning of year	<u>\$ 15,937</u>	<u>\$ 15,753</u>
Excess over par value of common stock for options exercised in previous years (Note E)	<u>146</u>	<u>184</u>
Balance at end of year	<u>\$ 16,083</u>	<u>\$ 15,937</u>

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEETS

Zayre Corp. and Consolidated Subsidiaries

	January 25, 1975	January 26, 1974
	(In Thousands)	
ASSETS		
Current assets:		
Cash	\$ 38,667	\$ 36,589
Accounts receivable	4,812	5,611
Refundable federal and state income taxes (Note G)	2,550	—
Merchandise inventories	177,647	191,518
Prepaid expenses	4,656	3,925
Total current assets	228,332	237,643
Equity in and receivables from Zayre Credit Corporation and fifty percent owned companies:		
Equity, net of dividends	1,703	1,126
Receivables	5,002	2,997
Property, at cost:		
Land and buildings	40,566	40,273
Leasehold costs and improvements	21,034	20,535
Furniture, fixtures and equipment	95,787	89,645
	157,387	150,453
Less accumulated depreciation and amortization	55,465	45,828
	101,922	104,625
Other assets, including unamortized pre-opening costs	3,603	4,849
Goodwill	4,880	4,880
Total assets	\$345,442	\$356,120
LIABILITIES		
Current liabilities:		
Current instalments of long-term debt	\$ 13,722	\$ 9,324
Accounts payable	60,433	70,563
Accrued expenses and other current liabilities	26,576	24,450
Federal and state income taxes (including current portion of deferred taxes \$3,400 and \$2,700) (Note G)	3,903	6,525
Total current liabilities	104,634	110,862
Long-term debt, exclusive of current instalments (Note A):		
General corporate debt	42,607	45,523
Equipment promissory notes	49,274	50,674
Real estate mortgages	30,041	32,547
Deferred income taxes (Note G)	9,362	7,808
Commitments (Notes B and C)		
SHAREHOLDERS' EQUITY (Notes A, B, D and E)		
Preferred stock, par value \$1, authorized 1,000,000 shares, issued and outstanding 57,659 shares		
Series B cumulative convertible preferred stock	58	58
Common stock, par value \$1, authorized 15,000,000 shares, issued and outstanding 4,864,767 and 4,874,817 shares	4,865	4,875
Additional paid-in capital	16,083	15,937
Retained earnings	88,518	87,836
Total shareholders' equity	109,524	108,706
Total liabilities and shareholders' equity	\$345,442	\$356,120

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Zayre Corp. and Consolidated Subsidiaries

	Fiscal Year Ended	
	January 25, 1975	January 26, 1974
	(In Thousands)	
SOURCE OF WORKING CAPITAL		
Net income	\$ 832	\$ 9,112
Charges to income not requiring working capital:		
Depreciation and amortization	12,653	13,089
Deferred income taxes, net of \$700 and \$800 applicable to instalment receivables	1,554	2,303
Other, net	(997)	555
Funds provided from operations	14,042	25,059
Additional long-term borrowings	7,100	12,876
Property disposals at net book value	568	326
	<u>\$21,710</u>	<u>\$38,261</u>
APPLICATION OF WORKING CAPITAL		
Decrease in long-term debt	\$12,992	\$10,068
Purchase of 5¼% convertible subordinated debentures	374	703
Property additions	9,017	15,311
Advances to (from) Zayre Credit Corporation and fifty percent owned companies	2,005	(753)
Dividends on Series B preferred stock	150	150
Other, net	255	2,385
	<u>24,793</u>	<u>27,864</u>
Increase (decrease) in working capital	<u>(3,083)</u>	<u>10,397</u>
	<u>\$21,710</u>	<u>\$38,261</u>
DETAILS OF WORKING CAPITAL INCREASE (DECREASE)		
Increase (decrease) in current assets:		
Cash	\$ 2,078	\$ 4,818
Marketable securities	—	(5,036)
Accounts receivable	(799)	(2,176)
Refundable federal and state income taxes	2,550	—
Merchandise inventories	(13,871)	22,397
Prepaid expenses	731	312
	<u>(9,311)</u>	<u>20,315</u>
Increase (decrease) in current liabilities:		
Current instalments of long-term debt	4,398	(723)
Accounts payable	(10,130)	4,821
Accrued expenses and other current liabilities	2,126	4,421
Federal and state income taxes	(2,622)	1,399
	<u>(6,228)</u>	<u>9,918</u>
Increase (decrease) in working capital	<u>\$ (3,083)</u>	<u>\$10,397</u>

The accompanying notes are an integral part of the financial statements.

COMBINED BALANCE SHEETS

The Leasing Subsidiaries of Zayre Corp.

(Included in the Consolidated Balance Sheets)

	January 25, 1975	January 26, 1974
	(In Thousands)	
ASSETS		
Cash	\$ 12,224	\$ 8,440
Accounts receivable and other assets	320	1,262
Property, at cost:		
Land and buildings	40,566	40,273
Furniture, fixtures, equipment and leasehold improvements	103,274	97,161
	143,840	137,434
Less accumulated depreciation and amortization	49,982	41,070
	93,858	96,364
Total assets	\$106,402	\$106,066
LIABILITIES		
Accounts payable and accrued expenses	\$ 1,074	\$ 2,506
Due to parent and operating subsidiaries	552	556
Long-term debt, including current instalments of \$11,514 and \$7,166 (Note A)	90,829	90,387
Deferred income taxes	7,430	5,879
Total liabilities	99,885	99,328
PARENT COMPANY'S EQUITY	6,517	6,738
Total liabilities and parent company's equity	\$106,402	\$106,066

BALANCE SHEETS

Zayre Credit Corporation

(A Wholly-owned Unconsolidated Subsidiary of Zayre Corp.)

	January 25, 1975	January 26, 1974
	(In Thousands)	
ASSETS		
Customer instalment receivables purchased from Zayre Corp. and operating subsidiaries, net of \$1,919 and \$1,559 withheld pending collection	\$ 22,070	\$ 17,934
Cash and other assets	307	216
Total assets	\$ 22,377	\$ 18,150
LIABILITIES		
Short-term notes payable to banks, interest at prime	\$ 17,250	\$ 15,000
Due to parent company (subordinated)	2,268	723
Total liabilities	19,518	15,723
PARENT COMPANY'S INVESTMENT		
Subordinated demand notes, interest at prime	1,500	1,500
Common stock	500	500
Retained earnings	859	427
Total parent company's investment	2,859	2,427
Total liabilities and parent company's investment	\$ 22,377	\$ 18,150

The accompanying notes are an integral part of the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUMMARY OF ACCOUNTING POLICIES

Consolidation Policies. The financial statements of Zayre Corp. and Consolidated Subsidiaries include the financial statements of all the Company's wholly-owned operating and leasing subsidiaries, but exclude the financial statements of Zayre Credit Corporation (see page 17 for balance sheets) which is accounted for under the equity method in the accompanying consolidated financial statements.

Fifty percent owned companies consist of a real estate development company and Remex, a joint venture which operates the Company's gasoline stations. (For further information on fifty percent owned companies see page 6.) The investments in these companies are accounted for under the equity method.

Merchandise Inventories. Inventories are stated at the lower of cost or market, using the retail method.

Goodwill. Goodwill represents the excess of purchase price incurred over the costs assigned to identified assets of companies acquired prior to November 1, 1970 and is not being amortized.

Depreciation and Amortization. For financial reporting purposes, the Company provides for depreciation principally by the use of the straight-line method as follows: buildings — 33 years; leasehold costs and improvements — shorter of the lease term or estimated useful life; and furniture, fixtures and equipment — 5 to 10 years.

Additions and refurbishings, unless of minor amount, are charged to the property accounts. Expenditures for repairs and maintenance are charged to income as incurred.

Pre-opening costs are charged to operations over the twelve-month period following the opening of a new store or facility.

Debt discount and related issue expenses are amortized over the lives of the related debt issues.

Capitalized Interest. The Company has consistently followed the practice of capitalizing interest incurred as a result of interim financing for the development of real estate locations.

Pension Plan. The Company has a noncontributory retirement plan covering substantially all full-time employees who are thirty years of age and have completed three years of service. Pension costs include current service costs and amortization of prior service costs over 30 years. The Company funds pension costs accrued.

Income Taxes. Deferred income taxes arise from income tax and financial reporting differences, principally with respect to customer instalment receivables and depreciation. The deferral related to the instalment receivables is classified with the current federal and state income tax liability. Investment credit is recognized as a reduction in the provision for federal income taxes in the year in which the related properties are placed in service.

The Company and all wholly-owned subsidiaries file a consolidated federal income tax return.

Net Income Per Common Share. Primary net income per common share is based upon the average number of common and common equivalent shares outstanding in each year, after provision for dividend requirements on the pre-

ferred stock. Fully diluted net income per common share assumes full conversion of all convertible securities and the exercise of all stock options and warrants during the periods in which they were outstanding and were dilutive.

NOTE A—LONG-TERM DEBT

At January 25, 1975, long-term debt, exclusive of current instalments, consisted of the following:

General corporate debt:

Promissory notes, interest at 5.8% to 8%, maturing April 1, 1976 to January 31, 1984	\$ 1,577,000
8% sinking fund debentures, maturing August 15, 1977 to August 15, 1996 at \$1,250,000 annually (effective interest rate of 8.9% after the reduction of the unamortized debt discount of \$2,690,000)	22,310,000
Subordinated notes, interest at 5½%, maturing January 15, 1979	700,000
5¾% convertible subordinated debentures, net of \$1,980,000 held in treasury, maturing December 15, 1979 to December 15, 1994 at \$1,000,000 annually	18,020,000
	<u>42,607,000</u>

Equipment promissory notes, interest principally at ¼% above prime, maturing in fiscal years 1977 to 1981	49,274,000
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Real estate mortgages, interest at 5½% to 10½%, maturing September 1, 1977 to January 1, 2001	30,041,000
	<u>\$121,922,000</u>

The aggregate maturities of long-term debt outstanding at January 25, 1975 are as follows:

Fiscal Years	General Corporate Debt	Equipment Notes and Real Estate Mortgages	Total
1977	\$ 350,000	\$ 8,507,000	\$ 8,857,000
1978	1,816,000	9,362,000	11,178,000
1979	1,919,000	8,370,000	10,289,000
1980	2,372,000	7,568,000	9,940,000
Thereafter	36,150,000	45,508,000	81,658,000
	<u>\$42,607,000</u>	<u>\$79,315,000</u>	<u>\$121,922,000</u>

The Company finances its furniture and fixture purchases with equipment promissory notes having an initial term of five years with a balloon payment at the end of the fifth year which approximates 50% of the original balance. Traditionally, the Company has been successful in refinancing this balloon payment for an additional period of five years. The data presented in the maturity schedule above assumes such refinancings. If these refinancings were not available to the Company, the aggregate maturities of "Equipment Notes and Real Estate Mortgages" would be: \$14,714,000, \$19,471,000, \$10,802,000 and \$7,522,000 in fiscal years 1977 through 1980, respectively and \$26,806,000 thereafter.

The subordinated notes are subordinated to the promissory notes and the sinking fund debentures. The 5¾% convertible subordinated debentures are subordinated to all other general corporate debt and are convertible into common stock at \$40 per share, for which the Company has reserved 500,000 shares of its common stock. The Company has also reserved 300,000 shares of common stock for warrants issued in connection with the sinking fund debentures, exercisable at \$40 and expiring on August 31, 1976.

During fiscal 1975 and fiscal 1974, the Company acquired \$1,980,000 in face value of its 5¼% convertible subordinated debentures on the open market using general corporate funds. The debentures were acquired at less than face value which resulted in net income to the Company of \$255,000 or \$.05 per share in fiscal 1975 and \$154,000 or \$.03 per share in fiscal 1974. These debentures can be used to meet sinking fund requirements.

While the parent company is not directly obligated with respect to the equipment promissory notes or real estate mortgages, it has guaranteed the leases which have been assigned as collateral for such debt. Real estate mortgages are collateralized by substantially all land and buildings.

NOTE B — SHORT-TERM BORROWINGS, COMPENSATING BALANCES AND CREDIT LINES

During fiscal 1975 and 1974 short-term borrowings (including commercial paper) of the Company and Zayre Credit Corporation (an unconsolidated subsidiary) were as follows:

	(Amounts in Thousands)			
	Zayre Corp.		Zayre Credit Corporation	
	1975	1974	1975	1974
Maximum loans outstanding	\$66,000	\$55,500	\$17,250	\$15,000
Outstanding at fiscal year end	—0—	—0—	\$17,250	\$15,000
Daily weighted average borrowings	\$40,300	\$28,800	\$14,000	\$ 9,700
Daily weighted average interest rates	10.77%	8.12%	10.71%	7.89%

The Company maintains compensating balances under informal arrangements with banks in connection with the lines of credit and its equipment promissory notes. Under substantially all of these arrangements, the Company is expected, but not legally required, to maintain average bank balances equal to 15% of its line of credit and the unpaid principal balances of equipment notes. The bank balances generally include amounts resulting from normal timing differences in the recording of cash transactions by the Company and the banks.

On March 7, 1975, the Company consummated an unsecured committed line of credit agreement with its present line banks which increased its existing short-term lines of credit to \$89,500,000 of which \$22,000,000 is available for use by Zayre Credit Corporation. The agreement, which expires on January 28, 1977, and may be renewed annually thereafter, provides for interest to be paid at the annual rate of ¼% above prime on outstanding borrowings through January 31, 1976, and ½% above prime thereafter. The agreement also provides for a ½% commitment fee on the average daily unused amount and a ¼% facility fee on the total committed amount. The agreement contains certain restrictive covenants which, among other things, include minimum working capital and net worth requirements and limitations as to capital expenditures, dividends and the incurrence of lease obligations and long-term debt.

Under the terms of the agreement, retained earnings at January 25, 1975, are not available for dividends on common stock.

NOTE C — COMMITMENTS

The Company is committed under long-term leases for the rental of real estate (stores, warehouses and office facilities) and equipment (principally computer and automotive). The real estate leases range from 5 to 36 years, have varying renewal options and, in several leases, purchase options. In

addition, the Company is generally required to pay insurance, real estate taxes, other operating expenses and in some cases rentals based on a percentage of sales. The equipment leases range from 3 to 11 years.

Some of the above leases meet the Securities and Exchange Commission's definition of financing leases since the non-cancelable lease period either (1) covers 75% or more of the economic life of the property or (2) has terms which assure the lessor a full recovery of the fair market value of the property at the inception of the lease, plus a reasonable return on his investment. Such "financing" leases are presented separately hereunder pursuant to this definition.

Total rental expense (net of sublease income which is not material) amounted to:

	1975	1974
"Financing" leases	\$17,436,000	\$15,829,000
Other leases	18,021,000	16,688,000
	<u>\$35,457,000</u>	<u>\$32,517,000</u>

At January 25, 1975, the minimum commitments under non-cancelable leases with an initial or remaining term of greater than one year are presented below. These leases are primarily real estate leases and are presented net of sub-leases.

Fiscal Years	"Financing"	Other	Total
1976	\$17,470,000	\$16,962,000	\$ 34,432,000
1977	17,409,000	16,709,000	34,118,000
1978	17,348,000	16,494,000	33,842,000
1979	17,243,000	15,986,000	33,229,000
1980	17,271,000	15,739,000	33,010,000
1981-1985	77,358,000	69,673,000	147,031,000
1986-1990	66,479,000	50,768,000	117,247,000
1991-1995	57,112,000	37,543,000	94,655,000
Thereafter	35,675,000	12,424,000	48,099,000

At January 25, 1975, the Company was committed for additional minimum annual rentals of approximately \$148,000 for specialty stores to be opened during fiscal 1976.

The estimated present values of "financing" leases which amount to \$148,550,000 and \$149,750,000 as of January 1975 and January 1974, respectively, were determined by discounting the net lease payments at interest rates estimated to be inherent in the terms of the leases. The interest rates used to compute present values range from 5% to 11% (weighted average rate of 8.60% and 8.56% in 1975 and 1974, respectively).

If the above "financing" leases were capitalized and amortized on a straight-line basis over the initial terms of the leases and interest were accrued on the outstanding lease liabilities, net income would have been reduced by approximately \$1,575,000 and \$1,523,000 in 1975 and 1974, respectively. This computation includes amortization of present values of \$7,618,000 and \$6,860,000 and interest of \$12,846,000 and \$11,979,000 in 1975 and 1974, respectively.

The above amortization is greater than the depreciation that would have been charged if the leased properties were owned, because no amount has been allocated to land and the amortization is over the lease term rather than the longer economic life of the property which would have been used for depreciation.

NOTE D—PREFERRED STOCK

The series B \$2.60 cumulative convertible preferred stock is entitled to a liquidation preference of \$65 per share, or \$3,748,000 in the aggregate, and is redeemable at the option of the Company at the same price. Each share is convertible into 1.5 shares of common stock and 86,488 shares of common stock have been reserved for the conversion privilege.

NOTE E—STOCK OPTIONS AND STOCK PURCHASE PLAN

Under its stock option plans, the Company has granted certain officers and key employees options for the purchase of common stock within five years from the grant date at option prices of 100% of market price on the grant date, exercisable at various times during the four-year period beginning one year after the grant date. At January 25, 1975, 5,600 shares were exercisable.

Option activity during fiscal 1975 was as follows:

	Option Prices	Number of Common Shares Reserved for	
		Options Granted	Future Options
Outstanding at January 26, 1974	\$10.25-\$38.67	202,628	138,736
Cancellations	\$10.25-\$38.67	(65,142)	65,142
Outstanding at January 25, 1975	\$10.25	137,486	203,878

Under its Executive Incentive Stock Purchase Plan, 117,920 shares of common stock were reserved at January 25, 1975 for sale at a price (not less than par value) determined by the Company, subject to repurchase options and restrictions on sales which lapse equally over five or ten years. In fiscal 1975, 10,050 shares were repurchased from former executives by the Company for \$1.00 per share. The Company's shareholders approved an amendment to the plan authorizing an increase of 100,000 shares to the number of shares which may be sold under the plan. There were no shares sold under the plan in fiscal 1975.

The excess of the value over the purchase price of all shares sold under this plan is charged to income ratably over the period during which the restrictions lapse. Such charges amounted to \$146,000 in fiscal 1975 and \$184,000 in fiscal 1974. The annual charge is reduced by applicable income taxes.

NOTE F—PENSION EXPENSE

Pension expense amounted to \$899,000 and \$1,060,000 for fiscal 1975 and 1974, respectively. During fiscal 1975, the actuarial assumptions regarding employee turnover rates were changed to more closely reflect the Company's actual experience which had the effect of reducing the current year pension costs by approximately \$300,000. Partially offsetting this was a decrease in the market value of the plan assets. Unfunded prior service costs at December 31, 1973, the date of the most recent actuarial valuation, were \$690,000. As of the valuation date, the plan assets exceeded the actuarially

computed value of vested benefits.

Studies are being conducted to conform the pension plan to the requirements of the Employee Retirement Income Security Act of 1974.

NOTE G—INCOME TAXES

The provisions for income taxes include the following:

	Federal	State	Total
1975			
Current	\$ (2,428,000)	\$ 580,000	\$ (1,848,000)
Deferred	2,178,000	76,000	2,254,000
	<u>\$ (250,000)</u>	<u>\$ 656,000</u>	<u>\$ 406,000</u>
1974			
Current	\$ 3,177,000	\$1,347,000	\$ 4,524,000
Deferred	2,723,000	380,000	3,103,000
	<u>\$ 5,900,000</u>	<u>\$1,727,000</u>	<u>\$ 7,627,000</u>

	1975	1974
Investment credit included above as a reduction of the current provision for federal income taxes	<u>\$ 522,000</u>	<u>\$1,250,000</u>
Deferred income tax expense was attributable to:		
Excess of tax over book depreciation	<u>\$1,800,000</u>	<u>\$1,500,000</u>
Deferral for tax purposes of gross profit on instalment accounts receivable	<u>700,000</u>	<u>800,000</u>
Other, net	<u>(246,000)</u>	<u>803,000</u>
	<u>\$2,254,000</u>	<u>\$3,103,000</u>

The Company estimates that its cash payments for income taxes will not exceed its tax provisions in any of the next three years.

The following is a reconciliation between the fiscal 1975 and 1974 effective income tax rates and the statutory federal income tax rate:

	1975	1974
Statutory federal income tax rate	48%	48%
Investment tax credit	(42)	(7)
State income taxes net of federal tax benefit	27	5
Effective income tax rate	<u>33%</u>	<u>46%</u>

State income taxes did not decline ratably with income before income taxes primarily because of the inclusion of state taxes based on gross receipts and the filing of separate returns for state tax purposes.

Accountants' Report

COOPERS & LYBRAND

CERTIFIED PUBLIC ACCOUNTANTS

IN PRINCIPAL AREAS
OF THE WORLD

To the Board of Directors of Zayre Corp.:

We have examined the consolidated balance sheet of Zayre Corp. and Consolidated Subsidiaries as of January 25, 1975, the related consolidated statements of income and retained earnings, additional paid-in capital, and changes in financial position for the fiscal year then ended. We have also examined the combined balance sheet of the Leasing Subsidiaries of Zayre Corp. and the balance sheet of Zayre Credit Corporation, an unconsolidated subsidiary of Zayre Corp., as of January 25, 1975. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the above financial statements for the fiscal year ended January 26, 1974.

In our opinion, the aforementioned financial statements present fairly the financial position of Zayre Corp. and Consolidated Subsidiaries, the Leasing Subsidiaries of Zayre Corp. and Zayre Credit Corporation at January 25, 1975 and January 26, 1974 and the results of operations and changes in financial position of Zayre Corp. and Consolidated Subsidiaries for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Boston, Massachusetts
April 4, 1975

Coopers & Lybrand

DIRECTORS & OFFICERS

DIRECTORS

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*SUMNER FELDBERG	<i>Chairman</i>
*STANLEY H. FELDBERG	<i>President</i>
*MILTON L. LEVY	<i>Chairman Executive Committee</i>
	<i>Senior Vice President</i>
*BURTON S. STERN	<i>Executive Vice President</i>
†N. PRESTON BREED	<i>Consultant, State Street Boston</i>
	<i>Financial Corporation</i>
ALBERT M. KRONICK	<i>Consultant</i>

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Partner, Nathanson & Rudofsky
Associate Dean of Educational Affairs,
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Executive Vice President,
Wertheim & Co. Inc.
Chairman of the Board,
The Gillette Company

†ROBERT F. SHAPIRO

†VINCENT C. ZIEGLER

*member of the Executive Committee

†member of the Audit Committee

OFFICERS

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SUMNER FELDBERG	<i>Chairman of the Board</i>
STANLEY H. FELDBERG	<i>President</i>
DAVID KAPLAN	<i>Executive Vice President,</i>
	<i>Sales/Operations</i>
BURTON S. STERN	<i>Executive Vice President,</i>
	<i>Merchandising</i>

MILTON L. LEVY	<i>Chairman Executive Committee,</i>
	<i>Senior Vice President, Real Estate</i>
ARTHUR F. LOEWY	<i>Senior Vice President, Finance, and</i>
	<i>Treasurer</i>
JOHN F. MCGOWAN	<i>Senior Vice President,</i>
	<i>Sales/Operations</i>
MALCOLM L. SHERMAN	<i>Senior Vice President, General</i>
	<i>Merchandise Manager</i>

Vice Presidents

GERALD DAVIS	<i>Merchandising</i>
IRVING LIEF	<i>Merchandising</i>
THEODORE SCHOENFELD	<i>Merchandising</i>
KARAM SKAFF	<i>Merchandising</i>
WILLIAM SMITH	<i>Merchandising</i>
ROBERT ALGER	<i>Regional Manager</i>
JOSEPH HALPER	<i>Regional Manager</i>
RUDY HUNTER	<i>Regional Manager</i>
GEORGE MOVER	<i>Regional Manager</i>
LEONARD OPPENHEIMER	<i>Regional Manager</i>

STANLEY SCHLESINGER	<i>Regional Manager</i>
L. R. BENNETT	<i>Shoppers' City</i>
ROBERT FEINBERG	<i>Beaconway</i>
GEORGE FREEMAN	<i>Staff/Finance</i>
RICHARD JOHNSON	<i>Real Estate</i>
SAMUEL LYNCH	<i>Management Information Systems</i>
ROBERT SHEDD	<i>Finance/Assistant Treasurer</i>
LEE A. SILVER	<i>Personnel</i>
WARNER STRAUSS	<i>Distribution Services</i>
HERBERT ZARKIN	<i>Advertising and Sales Promotion</i>

Assistant Vice Presidents

JOSEPH DENARO	<i>Credit</i>
HERSHEL DENKER	<i>Business Planning</i>
DAVID GOLDMAN	<i>Hit or Miss</i>
TIMOTHY HART	<i>Market Research</i>
STEPHEN HERMAN	<i>Corporate Planning</i>
RONALD HIRSHBERG	<i>Apparel Stores</i>
RANDOLPH L. KRUGER	<i>Management Information Systems</i>

NORMAN LENOX	<i>Disbursements</i>
SEYMOUR LEVINE	<i>Sales/Operations</i>
DONALD NORMAN	<i>Management Information Systems</i>
C. A. ONOFRIETTI	<i>Security</i>
IRVING RITZ	<i>Personnel</i>
CALVIN SALTZMAN	<i>Merchandising</i>
CHARLES SELF	<i>Controller</i>

Secretary Newton A. Lane

Assistant Secretary Dermot B. Moylan

Transfer Agents — Common Stock

State Street Bank and Trust Company
Boston, Massachusetts
Irving Trust Company
New York, New York

Registrars — Common Stock

The First National Bank of Boston
Boston, Massachusetts
The Chase Manhattan Bank
New York, New York

Trustee — Convertible Subordinated Debentures

First National City Bank
New York, New York

Trustee — Sinking Fund Debentures

Bankers Trust Company
New York, New York

Listing

New York Stock Exchange
(Common Stock and Debentures)

Executive Offices

Framingham, Massachusetts

Auditors

Coopers & Lybrand

General Counsel

Nathanson & Rudofsky

Special Counsel

Ropes & Gray



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